Brascan
LIMITED

60th ANNUAL REPORT 1972

AR29

**Brascan**
LIMITED

## Directors

HERMANN J. ABS/*Frankfurt on Main*
Chairman, Deutsche Bank AG

J. H. A'COURT/*Toronto*
SENIOR FINANCIAL CONSULTANT to the Company

PIERRE ANSIAUX/*Brussels*
Member of the Bar of the Supreme Court of Belgium

THIERRY BARBEY/*Geneva*
Managing Partner, Lombard, Odier & Cie

*HENRY BORDEN/*Toronto*
Director and member of Executive Committee, Bell Canada

PAUL G. DESMARAIS/*Montreal*
Chairman, Power Corporation of Canada, Limited

E. C. FREEMAN-ATTWOOD/*Toronto*
VICE-PRESIDENT, FINANCE

JOHN F. GALLAGHER/*Chicago*
Vice-President, International Operations, Sears, Roebuck and Co.

ANTONIO GALLOTTI/*Rio de Janeiro*
VICE-PRESIDENT; President,
Light-Serviços de Eletricidade S.A.

J. PETER GRACE/*New York*
Chairman, W. R. Grace & Co.

LEWIS B. HARDER/*New York*
Chairman, International Mining Corporation

N. E. HARDY/*London, Ontario*
President, John Labatt Limited

W. C. HARRIS/*Toronto*
Chairman, Harris & Partners Limited

LOUIS A.-LAPOINTE/*Montreal*
Chairman and President, Miron Company Ltd.

A. J. MacINTOSH/*Toronto*
Partner, Blake, Cassels & Graydon

*PAUL E. MANHEIM/*New York*
Limited Partner, Lehman Brothers

WILLIAM J. MANNING/*New York*
Partner, Simpson Thacher & Bartlett

*BEVERLEY MATTHEWS/*Toronto*
Partner, McCarthy & McCarthy

*NEIL J. McKINNON/*Toronto*
Chairman, Canadian Imperial Bank of Commerce

WILLIAM G. MEESE/*Detroit*
President and Chief Executive Officer, The Detroit Edison Company

*J. H. MOORE/*London, Ontario*
PRESIDENT

JOHN G. PHILLIMORE/*London*
Company Director

*Member of the Executive Committee

as at March 20, 1973

## Officers

J. H. MOORE/*President*
ANTONIO GALLOTTI/*Vice-President*
E. C. FREEMAN-ATTWOOD/*Vice-President, Finance*
A. W. FARMILO/*Vice-President*
R. F. LEWARNE/*Vice-President*
L. A. ALLEN/*Secretary*
R. R. SUTHERLAND/*Comptroller*

## LIGHT-SERVIÇOS DE ELETRICIDADE S.A.

### Directors

ANTONIO GALLOTTI/*President*

J. J. MARQUES FILHO/*Vice-President*

J. S. FREITAS/*Vice-President*

RUY BESSONE P. CORRÊA

W. J. CROCKER

JOSÉ RUBEM FONSECA

ALEXANDRE H. LEAL

RAPHAEL DE ALMEIDA MAGALHÃES

D. W. MINION

J. S. MONTEIRO

ALBERTO DO AMARAL OSÓRIO

R. E. SPENCE

CAIO TÁCITO VASCONCELLOS

## BRASCAN FINANCIAL SERVICES AND INVESTMENT GROUP IN BRAZIL

ANTONIO GALLOTTI/*President*

ROBERTO PAULO CEZAR DE ANDRADE

A. T. COUSINS

PEDRO LEITÃO DA CUNHA

JOÃO PINTO DA CUNHA SAAVEDRA

R. E. SPENCE

J. E. WILLIAMS

## Transfer Agents

National Trust Company, Limited
*Toronto, Montreal and Vancouver*

First National City Bank
*New York*

## Registrars

Canadian Imperial Bank of Commerce
*Toronto, Montreal and Vancouver*

Bankers Trust Company
*New York*

## Annual and Special General Meeting

The annual and special general meeting of the shareholders will be held at the Royal York Hotel, Toronto on Tuesday, June 5, 1973 at 11 o'clock in the morning.

*Si vous désirez recevoir un exemplaire en français de ce Rapport, veuillez vous adresser au Secrétaire, Brascan Limited*

Brascan
LIMITED

BOX 48, COMMERCE COURT WEST, TORONTO, ONTARIO

## COMPARATIVE HIGHLIGHTS (Dollar amounts expressed in U.S. Currency)

| | 1972 | 1971 |
|---|---|---|
| | $ millions | $ millions |
| Property, plant and equipment at cost | 1,220.5 | 1,123.7 |
| Long-term debt | 87.0 | 46.4 |
| Shareholders' equity | 815.5 | 742.4 |
| Electric operating revenues | 518.2 | 425.0 |
| Capital expenditures | 106.8 | 87.6 |
| Net income | 97.4 | 83.8 |
| Total cash dividends | 24.4 | 23.2 |
| Ordinary shares outstanding (average) * | 25,611,902 | 25,610,922 |
| Book value per ordinary share—December 31 * | $31.83 | $28.98 |
| Net income per ordinary share * | $ 3.80 | $ 3.27 |
| Cash dividends declared per ordinary share | $ 1.00 | $ 1.00 |
| Stock dividend declared per ordinary share | 10% | |
| Kilowatt-hours sold—millions | 22,402 | 20,310 |

*after adjustment of the number of shares outstanding for the 10% stock dividend paid July 31, 1972. The 1971 figures have been restated in order to present a more meaningful comparison.

## CONTENTS



*The front cover of this 60th Annual Report shows a water-colour by an unknown British artist depicting Rio de Janeiro's Copacabana beach as it was early in the century. The photograph (bottom) is of the same scene today.*

## DIRECTORS' REPORT

This is the 60th Annual Report to the shareholders of Brascan Limited. The Directors are pleased to report that during the year the Company made satisfactory progress, both in terms of financial results and the furtherance of the Company's long-term policy of growth in Canada and Brazil.

During 1972 net income increased to \$97.4 million* (\$3.80 per ordinary share) from \$83.8 million in 1971 (\$3.27 per ordinary share after adjusting the number of shares outstanding for the 10% stock dividend paid July 31, 1972). The gain in earnings is attributable to increases in net utility income.

During the year Brascan defined more clearly its long-term objectives as an investment management company involved in both Canada and Brazil, and its areas of major investment interest. While our principal interest continues to be in Light—Serviços de Eletricidade S.A. ("Light"), the Brazilian electric utility subsidiary, our other investment initiatives are being directed into the following areas:

—consumer goods, particularly food and beverages in Brazil and Canada;

—natural resource development in Brazil and Canada;

—tourism and real estate development in Brazil;

—financial services and trading, both in Brazil and Canada and elsewhere in the world.

One of our major objectives is to strengthen and broaden our investment programs in Brazil and Canada to achieve a balance, firstly, between asset values and earnings inside Brazil, and secondly, of the assets and earnings between Brazil and Canada. Our programs are designed to maintain a balance between short-term and long-term goals. We are interested in achieving growth in the value of our dollar assets, together with earnings growth. We shall continue to build our management expertise in our selected areas as the investment program develops.

Our transition from being a company almost exclusively involved in Brazilian utility operations to one with a broad range of interests in both Brazil and Canada in the fields outlined above is already well underway. Evaluation of our present interests, and organization towards achievement of our goals can not be attained overnight, and the period of transition may take a few years. The opportunity is challenging but should prove rewarding.

*Dollar figures throughout this report are expressed in U.S. dollars except where otherwise indicated.

### Light

The economic expansion of Brazil continued during 1972 with an increase, after allowing for the inflationary factor, of 10.4% in the Gross Domestic Product; 1972 was the fifth consecutive year in which the Brazilian economy grew by more than 9%. This growth was spread throughout every major sector of economic activity, in agriculture, industry and commerce.

The program against inflation continued to achieve success, with an increase in the cost of living of 14% as compared to an 18.1% increase in 1971. The high level of economic activity in the area of South-Central Brazil served by Light was reflected in increased electric sales — 22.4 billion kilowatt hours, 10.3% higher than the 20.3 billion kilowatt hours sold the year before. The number of customers rose from 3,273,000 at the end of 1971 to 3,485,000 at the end of 1972, an increase of 6.4%.

To meet this rapidly rising demand for electricity the Light's capital expenditure program continued, with \$98.7 million spent during the year. To finance capital expenditures, the company, in addition to using funds provided from operations, has arranged to borrow approximately \$81 million from foreign lending institutions, of which \$50 million was drawn down during the year. These financings were facilitated by a reorganization during the year of the debt structure and attendant borrowing restrictions. Reversion funds collected in the tariffs have not been made available by the federal power agency (Eletrobrás) to Light during 1972.

### Consumer Goods

Brascan's largest investment in Canada continues to be its 32.5% interest in John Labatt Limited. This management holding company has major operations in brewing and other beverages, grain processing and allied products, and confectionery and other consumer foods.

The Brascan Investment Group in Brazil ("Investment Group") owns 92% of Fábricas Peixe, a major food-processing company. During the year a 45% interest was purchased in Swift-Armour S.A., Brazil's largest meat-packing company.

The Investment Group and John Labatt Limited reached agreement in February 1973, and, with a prominent Portuguese brewing concern, purchased control of Skol-Caracu, Brazil's third-largest brewing company.

### Natural Resources

During 1972 the Canadian natural resource program was reorganized.

Brascan Resources Limited (formerly Mikas Oil Co. Ltd.) proceeded with its investment in Elf Oil Exploration and Production Canada Ltd., which company has an active program of exploration and drilling, principally in the Arctic Islands. Brascan Resources is also carrying out a shallow well drilling program in Western Canada.

Brascan Resources' option to purchase an additional 47½% interest in the Sukunka coal project in British Columbia has been extended to June 30, 1975 or until such earlier date that there has been clarification of such matters as the granting of coal leases or permits, and the location of the loading port and connecting railroad. Development mining, market research programs and certain other aspects of the overall feasibility study of the project are continuing at a reduced rate.

## Tourism and Real Estate Development

The Investment Group's participation in the building of a $15 million hotel on Gávea Beach in Rio de Janeiro is continuing on schedule. Opening is planned for mid-1974.

Feasibility studies are underway for the development of a tourism project on beach-front property about half-way between Rio de Janeiro and São Paulo, which will offer a wide range of accommodation and recreational facilities.

## Financial Services and Trading

Banco Brascan and its associated companies in Brazil had a successful year, extending the range of services they offer to the public.

Organization of the Brascan international trading group, with offices in Toronto, Rio de Janeiro, London, New York, Tokyo and Osaka, proceeded during the year. A new trading and financial services office is being organized in Geneva.

## Canadian Tax Legislation

It is still not possible to make a definitive assessment of the probable impact of the new Canadian income tax legislation on the Company's net income, but none of the developments in the past year suggest that it will be material. The amendments proposed in the Government's May 1972 budget have not yet been enacted into law, and many regulations required under the new law have still to be published. One of the amendments proposed in May 1972 of particular interest to the Company will have the effect of postponing until 1975 the taxation of foreign accrual property income (i.e. interest, dividends, etc.) of foreign affiliates.

## Board of Directors

The Board, at its meeting of March 20, 1973, accepted with regret the resignation of Dr. A. T. A. Antunes. As a leading Brazilian industrialist, his contribution to the Company has been of unique value, and he will be greatly missed. E. C. Freeman-Attwood, Vice-President, Finance of the Company, was appointed a Director to fill the vacancy on the Board.

W. C. Harris, having reached retirement age, will not be standing for re-election as a Director at the forthcoming annual and special general meeting of shareholders. Mr. Harris joined the Board in 1953, and has given freely of his wise counsel over the years.

Their colleagues on the Board extend warm thanks to Dr. Antunes and Mr. Harris.

## Executive Appointments

In December, E. C. Freeman-Attwood was appointed Vice-President, Finance, succeeding J. H. A'Court who, pursuant to his own request, relinquished this post. Mr. A'Court will continue to serve the Company as a senior consultant. At the same time, A. W. Farmilo was appointed a Vice-President of the Company with special responsibilities in the area of natural resource development, and R. F. Lewarne a Vice-President with special responsibilities in the area of industrial development.

## Management and Staff

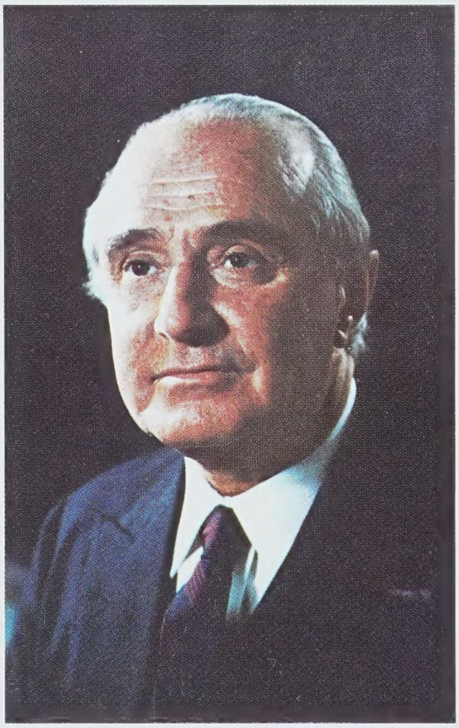
The Company's satisfactory progress toward achieving its goals during the year was due in large measure to the imagination and initiative of the employees and management of the Company and of its subsidiary and associated companies, both in Canada and in Brazil. On behalf of the Directors, I would like to extend to them sincere appreciation.

On behalf of the
Board of Directors

March 22, 1973

J. H. Moore
*President*

*J. H. Moore,*
*President of Brascan Limited.*



*Antonio Gallotti,*
*Vice-President of Brascan and*
*President of Light.*

## LIGHT—SERVIÇOS DE ELETRICIDADE S.A.

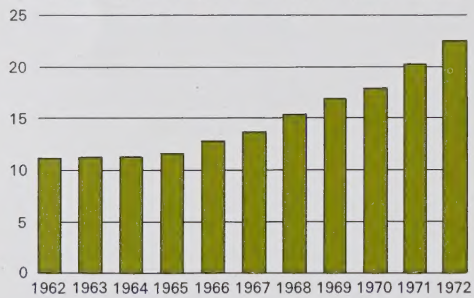
In 1972 Light sold over 22 billion kilowatt hours of electricity, an increase of 10.3%. Industrial consumption was up 11.6% from the previous year and accounted for 49.7% of total sales. Electricity sold to the industrial sector in the Light System has grown an average of 10.6% per annum during the period 1967-1972.

Residential sales increased 6.8% over 1971, totalling 5 billion kwh. Commercial customers used 3.6 billion kwh, an increase of 11.7% over the year before. By the year-end the Light was serving approximately three and a half million customers, and the 1972 System peak load reached 4,366 megawatts in November, an increase of 12% over the previous year's peak.

Since January 1972, Light has been operating under the new rate regulations described in the 1971 Annual Report. The rate of remuneration has been increased from 10% to 12%. Income tax rates have been lowered from 17% to 6%, but taxes paid are no longer recoverable as a cost of service. The reversion funds, formerly retained within the company and applied in expansion and improvement of the System, must now be paid into a general reversion fund administered by Eletrobrás, which may, at its discretion, grant loans to the concessionary companies. Interest on reversion funds retained within the company to December 31, 1971 and loans made from the General Reversion Fund has been raised from 6% to 10% per annum.

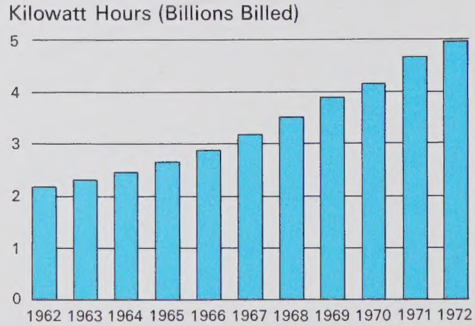
ELECTRIC ENERGY SOLD 1962-1972

Billions of Kilowatt Hours 1 Billion=1,000 Million



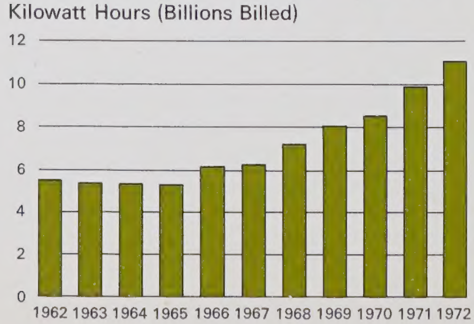

INCREASE IN RESIDENTIAL SALES 1962-1972

Kilowatt Hours (Billions Billed)




INCREASE IN INDUSTRIAL SALES 1962-1972

Kilowatt Hours (Billions Billed)




Light's investment in new plant and equipment in 1972 totalled $98.7 million. Plant in service and in course of construction totalled $1,198 million by the year-end. Programs for 1973 and future years include the extension of supply lines to rural areas and low income population within the Light System which will benefit some 140,000 households. Capital expenditures for the 1973-1977 period will amount to $690 million.

The major part of the funds required to finance the capital investment program will be generated within the company itself. No reversion funds have been made available to Light in 1972 by Eletrobrás. External financing is being arranged to meet the balance of the requirements of the program from international lenders (World Bank, Export Development Corporation) and in the capital market.

The notes to the financial statements in previous years have stated that electric operating income since January 1, 1965 may be subject to adjustment when the cruzeiro value of electric plant in service is finally established by the Government Commission appointed for that purpose. (Such plant in service comprises some 85% of Light's rate base). As previously reported, the value of Rio Region net plant in service at December 31, 1964 was established by the Commission in 1969 and officially approved in 1970. In 1972 the Commission established the value of the São Paulo Region plant at December 31, 1964, which findings were officially approved by the federal Government in November.

The values for both Regions as at December 31, 1964 are now in process of being updated to the end of 1972, monetarily corrected to compensate for decline in internal value of the currency. Upon completion, allowance will be made in future rate adjustments to compensate for over- or under-recovery of remuneration in prior years. Since the 1964 cruzeiro values confirmed by the Commission were approximately 2% below book values, it is not anticipated that such allowance will vary materially from this result when the values have been brought up to date.

*Light S.A. Board of Directors (clockwise from left)—Raphael de Almeida Magalhães, D. W. Minion, W. J. Crocker, Alberto do Amaral Osório, J. S. Monteiro, J. J. Marques Filho (Vice-President), Antonio Gallotti (President), J. S. Freitas (Vice-President), Alexandre H. Leal, R. E. Spence, Ruy Bessone P. Corrêa, José Rubem Fonseca, Caio Tácito Vasconcellos.*

## Light and Its Employees

At December 31, 1972, 25,968 men and women were employed by Light. The company takes pride in its reputation as a good employer. Its employee relations and welfare policies are constantly under review to ensure that Light remains in the forefront in this area, making its proper contribution to the welfare and personal development of its employees, and so to the social progress of the country. Among benefits offered as part of the employee relations' program are:

- 30 consecutive days' paid vacation plus a special vacation bonus (the mandatory period is 20 working days);
- free meals for personnel working more than three consecutive hours overtime;
- in case of absence due to illness, payment, for a period of up to two years, of the difference between the salary earned by the employee and the monthly compensation paid by the Social Security Institute;
- low-priced restaurants for personnel and free meals for employees engaged in work distant from their usual eating places;
- special indemnity, equivalent to 10 monthly pay periods, to victims of labour accidents or to their beneficiaries, apart from any compensation due them from Social Security.

During 1972, the company medical services carried out 88,000 consultations and 20,000 special examinations.

In 1972 the company raised the indemnities of the group life-and-accident insurance of its personnel and gave considerable assistance to the employees' cooperatives. The Light also inaugurated a special vacation financing plan for staff members and their families.

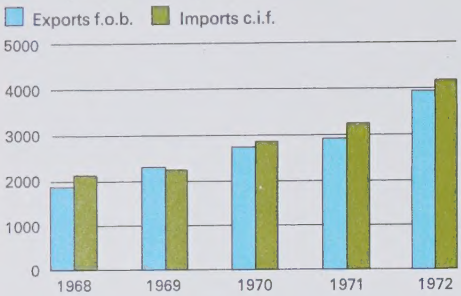
More than 2,900 employees were enrolled in internal and external educational and training courses at the company's expense. In the primary schools maintained by the Light for employees' children, 1,269 students were enrolled. In addition, the company maintained an industrial apprenticeship school and provided professional training for 173 candidates.

# THE BRAZILIAN ECONOMY

*The Transamazonian highway is part of Brazil's national plan to open up new territory for land development.*

FOREIGN TRADE 1968-1972

value expressed in millions of dollars




PRINCIPAL EXPORTS

value expressed in millions of dollars

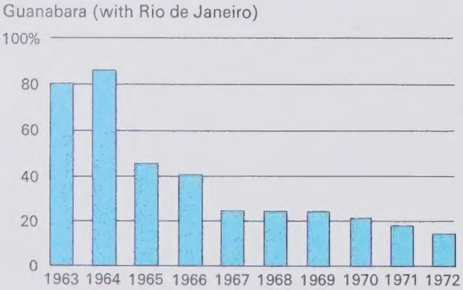
| | 1965 | 1969 | 1970 | 1971 | 1972 | Percentage increase '65-'72 |
|---|---|---|---|---|---|---|
| Coffee Beans | 707 | 813 | 939 | 772 | 948 | **34.1** |
| Soluble | | 33 | 43 | 50 | 65 | – |
| Mfd. Goods | 110 | 288 | 622 | 822 | 1,148 | **943.6** |
| Cotton | 96 | 196 | 154 | 137 | 270 | **181.3** |
| Iron Ore | 103 | 147 | 209 | 237 | 232 | **125.2** |
| Sugar | 57 | 115 | 127 | 153 | 293 | **414.0** |
| Cocoa Beans | 28 | 105 | 78 | 92 | 67 | **139.3** |
| Meats | 24 | 52 | 82 | 99 | 110 | **358** |
| Total All Exports | 1,595 | 2,311 | 2,739 | 2,904 | 4,056 | **154.3** |

(Based on figures supplied by Bank of Brazil—1972 figures estimated)

COST OF LIVING 1963-1972

annual percentage increase

Guanabara (with Rio de Janeiro)




The Brazilian economy in 1972 showed a high rate of growth in production and a continued decrease in inflation. Official sources estimate the Gross Domestic Product at $50 billion, a growth of 10.4% after allowing for the inflationary factor. The increase in the cost of living was 14%, compared to 18.1% in 1971, while wholesale prices increased 16%.

Besides promoting economic growth and curbing inflation, the Government's efforts have been directed toward the improvement of income distribution and of living standards. During 1972, programs were continued and others were introduced to promote low-income housing, literacy, personal savings, settlement of unexplored regions (land grants), redistribution of land and rationalization of agriculture.

## Production

Overall industrial production increased 13.9% in 1972, while that of manufacturing industries grew 14.3%. Automobile production reached 606,995 units, an increase of 18% over 1971. Steel production rose by 8.6% to 6.5 million tons. Additional incentives to expand industrial capacity were instituted.

Agricultural production continues to be highly dependent on weather conditions, and increased 4.1% in 1972 (11.4% in 1971, 5.6% in 1970). The Government has taken steps to encourage the use of modern farming techniques. A price-support policy and the extension of social security to rural workers have served to boost incomes in the agricultural sector.

## Monetary Policy and the Fight Against Inflation

Two main weapons were employed by the Government in its continuing fight against inflation: a monetary policy encouraging a high rate of economic growth while controlling inflation, together with direct price controls on the main sectors of the economy.

In 1972 agricultural products were the main source of pressure on the cost of living and on wholesale prices.

## Capital Market

The Government continued its policy of strengthening the financial institutions operating in the market. Mergers were encouraged in order to eliminate inefficient units and increase economies of scale. At the beginning of 1973, as part of the Government's program to curb inflation, lower ceilings were set on the rates of interest chargeable by all financial institutions.

Volume and prices on the stock markets were down throughout the year as compared to 1971, when the market was particularly buoyant.

## Foreign Trade and the Balance of Payments

Perhaps the most spectacular result for 1972 was that achieved by Brazilian exports which grew by almost 40%, reaching a total of over four billion dollars. Manufactured goods increased 40% and accounted for 28% of the total value of exports. Coffee exports increased 23% in value, representing 25% of total exports.

The balance of payments at year-end showed a surplus of $2,420 million; a net capital entry of $3,460 million offset deficits in the trade balance and services accounts. International reserves, according to official estimates, had reached a total of $4,057 million at the end of the year.

## Outlook for 1973

The Government intends to maintain its broad policy objectives for this year: a rate of economic growth between 10% and 11%, a decrease in the inflation rate to 12%, and a 15% increase in exports.

In order to achieve this high rate of growth, the Government will continue to invest heavily in basic industries and in production of steel, petrochemicals, electric power, building of highways, ports and warehousing facilities. It will also continue incentives for private investments.

# FINANCIAL REVIEW 1972*

The consolidated financial statements of the Company and its subsidiaries, together with the Auditors' Report thereon to the shareholders, appear on pages 5 to 15 of this review. Comparative analyses by currencies of the statements of consolidated income and source and application of funds are set out on pages 16 and 17 below followed by the comparative summary of income and operating statistics for each of the years since 1965.

The form and content of the consolidated financial statements has been altered this year in the following respects:

—The inclusion of a Summary of Accounting Policies which sets out the major accounting practices followed by the Company in the preparation of the statements on a continuing basis as distinguished from the Notes to Consolidated Financial Statements which relate more specifically to the current and preceding year.

—The consolidation of the accounts of three subsidiaries not previously consolidated as set out in the Basis of Consolidation in the Summary of Accounting Policies. As indicated in this note, the reported earnings per share in previous years have not been affected by this change, but some of the components of the 1971 financial statements have been altered.

—A further segmentation of the statements to indicate the income from those sectors in which the Company is engaged.

## Earnings

Consolidated net income totalled $97,420, or $3.80 per share in 1972, an increase of 16% from $83,781 in 1971 ($3.27 per share after adjustment of the number of shares outstanding for the 10% stock dividend paid July 31,

*The Company's financial statements are expressed in United States currency and all references to dollars in this Review are to thousands of United States dollars unless otherwise indicated.

1972). The contribution to consolidated income by sectors and currencies is summarized hereunder:

| | 1972 | | 1971 | |
|---|---|---|---|---|
| **SECTORS** | **Amount** | **$ per Share** | Amount | $ per Share |
| Net electric utility income . . . . | **$87,120** | **$3.40** | $70,526 | $2.75 |
| Investment and industrial income | | | | |
| North America and other . | **5,652** | **0.22** | 7,317 | 0.29 |
| Brazil . . . | **7,550** | **0.29** | 8,277 | 0.32 |
| General corporate expenses . . . | **(2,902)** | **(0.11)** | (2,339) | (0.09) |
| Net income . . . | **$97,420** | **$3.80** | $83,781 | $3.27 |
| **CURRENCIES** | | | | |
| North America and other . . . | **$29,703** | **$1.16** | $27,703 | $1.08 |
| Brazil . . . . . | **67,717** | **2.64** | 56,078 | 2.19 |
| | **$97,420** | **$3.80** | $83,781 | $3.27 |

Cash dividends, which were paid at the rate of $1.00 per share (25 cents quarterly per ordinary share) amounted to $24,400 in 1972 and $23,237 in 1971 representing 82% and 84% of the dollar components of earnings in each year.

### Electric Utility Income

Cruzeiro revenues and expenses were translated into dollars in 1972 at the average free market exchange rate for the year (Cr$5.93) except for depreciation which was translated at the same rate as that used for the translation of the related assets. At Cr$5.93, the dollar value of the cruzeiro is 10.6% lower than its value at the 1971 earnings rate of Cr$5.30. During the calendar year 1972 the cruzeiro was devalued by 9.3% from Cr$5.635 at the beginning of the year to Cr$6.215 at the year end.

During 1972 the Company received from its electric subsidiary all dollar amounts from Brazil to which it was entitled under the legislation governing remittances from that country. The remittances covered maturing interest and principal on inter-company debt of Light and dividends. Only some 48% of Light dividends payable to the Company is currently remittable in dollars. The balance is payable in cruzeiros and is allocated to the non-utility investment program to the extent not required to help finance Light's capital requirements.

Electric sales amounted to 22.4 billion kilowatt hours in 1972, an increase of 10.3% over the 20.3 billion kilowatt hours sold in the previous year.

Net electric utility income increased by 24% from $70,526 in 1971 to $87,120 in 1972. The major components of the increase of $16,594 are as follows:

| | | |
|---|---|---|
| Increase in allowable remuneration | | |
| Due to increase in rate base . . . . . . . | | $11,978 |
| Variation on translation into dollars . . . | | 2,033 |
| Balance of 1969 deficiency in earnings recovered in 1971 . . . . . . . . . . . | | (282) |
| Decrease (net) in other expenses not recoverable in rates . . . . . . . . . . . . . | | 2,252 |
| | | 15,981 |
| Variations arising from changes in the regulatory system— | | |
| Increase of 2% in the rate of allowable remuneration from 10% to 12% . . . . . . . | $21,691 | |
| 1970 corporate profits taxes paid in 1971 and recoverable in the 1971 rates . . . . . . . . | (12,149) | |
| Portion of increase in reversion interest attributable to the alteration of the interest rate from 6% to 10% . . . . . | (6,226) | 3,316 |
| | | 19,297 |
| Variations in income deductions | | |
| Increase in reversion interest . . | (7,988) | |
| Less portion above attributable to increase in rate of interest . . | 6,226 | |
| | (1,762) | |
| Interest—on long-term debt . . . | (1,020) | |
| —charged to construction—credit . | 4,345 | |
| Income on short-term investments . | 2,140 | |
| Foreign exchange adjustments . . | 2,284 | |
| Equity of minority shareholders . . | (4,032) | |
| Income and withholding taxes . . | (4,658) | (2,703) |
| | | $16,594 |

Short-term investments of Light S.A. increased during the year and this is reflected in the increase of $2,140 in the income thereon from $3,500 in 1971 to $5,640 in 1972.

Foreign exchange adjustments reflect a credit in 1972 of $2,899 compared with $615 in 1971. The increase of $2,284 in this translation credit arises primarily from

changes in the net cruzeiro asset position of Light and the continuing revaluation of the cruzeiro under the system of moving exchange rates.

### Investment and Industrial Income

Total investment and industrial income decreased by $2,392 from $15,594 in 1971 to $13,202 in 1972. As the tables below indicate, the major reason for this reduction was the absence in 1972 of the large profits on sales of shares and security trading realized in the prior year.

| North America and other | 1972 | 1971 | Change |
|---|---|---|---|
| Dividends | | | |
| John Labatt Limited . . | $2,515 | $2,121 | $ 394 |
| Hudson's Bay Company . | 472 | 447 | 25 |
| Other . . . . . . . . . | 96 | 253 | ( 157) |
| Profit on sale of shares . . | 221 | 2,099 | (1,878) |
| | 3,304 | 4,920 | (1,616) |
| Interest income . . . . . | 2,340 | 2,290 | 50 |
| Net income of oil and gas operations . . . . . . | 216 | 93 | 123 |
| Net loss on trading operations . . . . . . | (179) | | ( 179) |
| Foreign exchange adjustments . . . . . | ( 29) | 14 | ( 43) |
| | $5,652 | $7,317 | $(1,665) |

| Brazil | 1972 | 1971 | Change |
|---|---|---|---|
| Interest under telephone sale agreement . . . | $ 4,033 | $4,222 | $( 189) |
| Net income of investment subsidiaries | | | |
| Dividends . . . . | 229 | 179 | 50 |
| Interest on loans and short-term investments . . . | 11,601 | 3,055 | 8,546 |
| Commissions . . . | 2,128 | 1,424 | 704 |
| Sundry revenue . . | 330 | | 330 |
| | 14,288 | 4,658 | 9,630 |
| Profit on security trading and sale of other securities . . . . . | 1,040 | 8,482 | (7,442) |
| Interest expense . . . . | (3,956) | ( 38) | (3,918) |
| Administrative and general expenses . . | (4,423) | (1,424) | (2,999) |
| Income and withholding taxes . . . . . . . | (1,563) | (2,216) | 653 |
| Investment write down and appropriation for agricultural research | | (3,587) | 3,587 |
| Equity of minority shareholders . . . . | ( 114) | | ( 114) |
| | 5,272 | 5,875 | ( 603) |
| Net loss of industrial operations . . . . . | (2,252) | (2,100) | ( 152) |
| Foreign exchange adjustments . . . . | 497 | 280 | 217 |
| | $ 7,550 | $8,277 | $( 727) |

Net income of investment subsidiaries in 1972 reflects the inclusion of the results of Crefinan, the consumer finance company in which Banco Brascan has a majority interest.

Maturing interest and principal instalments under the Brazilian Government-guaranteed obligations covering the unpaid balance of the sale price of the telephone utilities and dividends from one of the investment subsidiaries through which a portion of the telephone proceeds is being reinvested in Brazil were remitted in full in 1972.

### Consolidated Balance Sheet

Shareholders' equity amounted at the end of 1972 to $815,459 ($31.83 per share) compared with $742,444 ($28.98 per share after adjustment of the number of shares outstanding for the stock dividend paid July 31, 1972). It was employed in the following areas at net book values:

| | 1972 | 1971 |
|---|---|---|
| Utility . . . . . . . . . . . . | $532,064 | $501,670 |
| Financial services and trading . . | 63,387 | 35,329 |
| Natural resources . . . . . . | 47,656 | 23,190 |
| Consumer goods and services . . | 79,705 | 73,204 |
| Tourism and real estate development . . . . . . . | 4,422 | 2,406 |
| General corporate | | |
| Obligations guaranteed by the Brazilian Government on sale of telephone utilities . . . | 67,470 | 68,309 |
| Other . . . . . . . . . . . | 20,755 | 38,336 |
| | $815,459 | $742,444 |

Working capital increased by $21,600 in 1972, principally in Brazil. The components of the increase appear in the statements on pages 12 and 17 of this Review and the

composition of the working capital at the end of 1972 and 1971 is shown on page 10.

As indicated in the Statement of Consolidated Source and Application of Funds, the chief sources of funds in 1972 were from operations ($136,634) and long-term borrowings ($59,742). Reversion and reversion interest were not a source of funds in 1972 as these were paid to the federal power agency (Eletrobrás) and not reinvested in plant as was the case in 1971.

Shares of Canadian companies at cost ($57,484) shown in the consolidated balance sheet include the Company's holdings in John Labatt Limited and Hudson's Bay Company. The quoted market value at the year-end of these investments was $105,992 compared with $83,445 at the end of 1971.

The shares of Canadian companies at cost (no quoted market value), consist principally of the holdings in Elf Oil Exploration and Production Canada Ltd. The equivalent of the cost to the Company of these holdings is being used by Elf, in part, to finance its drilling and exploration program, and a substantial portion of this contribution to Elf's expenditures on that program are being renounced in favour of Brascan Resources Limited and are thus available as an offset against the latter's future taxable income.

Investments in Brazil included under "Shares and debentures at cost less amounts written off" consist of the following:

| | **1972** | 1971 |
|---|---|---|
| Portfolio of listed securities | **$ 3,359** | $ 2,439 |
| Shares in state power companies | **4,233** | 4,233 |
| Other equities (principally FNV, Celanese, Garcia, Eucatex and Brinks) | **10,028** | 10,048 |
| Swift-Armour S.A. | **4,924** | |
| Ourobranco (Skol-Caracu) | **4,055** | |
| Debentures | **1,313** | 1,265 |
| | **$27,912** | $17,985 |

All of the equity holdings included in the above table represent minority positions in the companies indicated, except for Ourobranco which it is planned to merge with Skol-Caracu in 1973.

Interest-bearing secured loans and long-term finance contracts receivable arise from the lending activities of Banco Brascan and Crefinan, its consumer finance subsidiary.

Property, plant and equipment less depreciation thereon increased in 1972 by $81,532 consisting of the following items:

| | | |
|---|---|---|
| Electric capital expenditures on transmission and distribution | | $ 98,709 |
| Interest on electric construction capitalized | | 7,659 |
| | | 106,368 |
| Gávea hotel property | | 1,368 |
| Other property plant and equipment | | 1,491 |
| Coal and mineral licences and oil and gas properties and equipment | | 4,727 |
| Leasehold alterations and office furniture and fixtures | | 517 |
| | | 114,471 |
| Less: | | |
| Depreciation—electric plant | $27,305 | |
| Depreciation and depletion of equipment and properties | 743 | |
| | 28,048 | |
| Disposals and other changes | | |
| Other property, plant and equipment | 850 | |
| Oil and gas properties and equipment | 4,041 | 32,939 |
| Net change | | $81,532 |

The upward trend in the capital requirements of the electric utility is evidenced by the capital expenditures in the past five years shown below:

| | | | |
|---|---|---|---|
| 1968 | $67,125 | 1970 | $77,930 |
| 1969 | $75,074 | 1971 | $83,613 |
| 1972 | $98,709 | | |

The steady growth in the load on Light's system will require increasing annual capital expenditures.

Borrowings totalling $50,000 were drawn down during 1972 from Morgan Guaranty Trust Company of New York and through Brascan International B.V. to assist in financing this capital program. In addition, loans have been secured for future equipment purchases from Export Development Corporation of Can. $26,500 and from Canadian Imperial Bank of Commerce of Can. $4,500.

The unrealized balance of gas company assets continues to be carried at book value, pending determination by the courts of the compensation payable thereon.

# SUMMARY OF ACCOUNTING POLICIES

A summary of the Company's major accounting policies is presented below to assist the reader in evaluating the financial statements and other data contained in this report.

## Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its majority-owned subsidiaries. In 1972 the Company adopted the practice of including in the consolidated financial statements the accounts of one Canadian subsidiary (Brascan Resources Limited, formerly Mikas Oil Co. Ltd.—engaged in oil and gas exploration and production) and two Brazilian subsidiaries (Fábricas Peixe—a food processing company; Crefinan—a consumer finance company). This change in the basis of consolidation has been given retroactive effect. As the Company's investment in these subsidiaries had been carried on the equity accounting basis and, accordingly, full provision had been made in prior years' statements of consolidated income and retained earnings for the Company's share of their profits and losses since acquisition, this change did not alter previously reported earnings.

## Translation of foreign currencies

The Company's financial statements are expressed in United States currency. Assets, liabilities, revenues and expenses in currencies other than United States dollars have been translated into United States funds as follows:

(a) Current assets and current liabilities at the rate of exchange prevailing at December 31;

(b) Other assets and liabilities at the rates of exchange prevailing when they were acquired or incurred;

(c) Revenues and expenses at average official free market exchange rates for the year (or rates closely approximating these) except for depreciation and depletion provisions, which are at the same rates as those used for the translation of the related assets.

## Income and withholding taxes

The Company's general policy is to account for income and withholding taxes on a tax allocation basis. Interest and dividend payments from subsidiaries in Brazil are subject to regular Brazilian withholding taxes at the rate of 25 per cent and full provision has been made (in current liabilities) for such taxes at that rate on inter-company interest accrued and on subsidiaries' earnings to the extent that distribution of such earnings by way of cash dividends is anticipated in the following year.

## Utility operations—Brazil

(a) Revenue recognition—

The rate structure regulations, establishing what is known as "service at cost", became effective in 1965. Service at cost involves setting customers' rates for electricity at a level which will produce operating revenues sufficient to cover (i) operating expenses of the service, (ii) provisions for depreciation and reversion (see below), (iii) the allowable return on the rate base, and (iv) adjustment for prior years' deficiencies and surpluses. The main components of the rate base are the year-end balance of plant in service (at depreciated net book value in cruzeiros monetarily corrected by annual co-efficients to offset the inflationary decline of the currency) and an allowance for working capital.

Electric rates are established periodically based on anticipated costs and sales volume for the coming tariff period and the estimated year-end rate base. These estimates are filed with the regulatory authority as part of the application for rate revision. New rates come into force after review of the application and approval or modification by the regulatory authority. Because rates are based on estimates there will always be, in any one year, some surplus or deficiency. If there is a surplus (i.e., when billings to customers exceed "service at cost"), this amount must be taken into account in establishing rates in subsequent years and is accordingly excluded from current income and deferred to such subsequent years. If there is a shortfall in revenues, the deficiency is only recoverable from future rates and is taken into income when received.

(b) Depreciation and accumulated amortization—

Depreciation has been provided at the rate prescribed by the regulatory authority (being approximately 3 per cent of depreciable plant on a straight-line basis).

The provision for amortization (accumulated prior to 1953) may be required to cover part of the undepreciated cost of certain utility properties upon their reversion or other transfer to conceding authorities.

(c) Reversion—

Regulations require that certain moneys (known as reversion moneys) generated by the rates (and computed at an annual rate of approximately 3 per cent of gross plant) be paid on a current basis to Eletrobrás, the federal power agency, to be used in partial settlement of the compensation upon ultimate reversion of the properties to the conceding authority and/or as a pool of funds to help finance electric utility expansion programs throughout Brazil. The amount of such reversion moneys paid or payable to Eletrobrás in 1972 is shown in the statement of consolidated income.

In 1971 and prior years, the regulations permitted the Company's electric subsidiary to deposit such reversion moneys (computed in the same manner) in a special bank account and subsequently to withdraw substantially all of them for investment in its capital assets, such capital assets forming part of the rate base on which the rate of return is calculated. The cumulative amount of these withdrawals to December 31, 1971 is shown as accumulated reversion on the consolidated balance sheet. This accumulated reversion is not repayable, but does bear interest and would be deducted from the value of the utility assets upon reversion to the conceding authority.

(d) Reversion interest—

Regulations require that reversion interest at the rate of 10 per cent be computed on accumulated reversion (see (c) above) after annual monetary correction and that such interest be paid on a current basis to Eletrobrás.

In 1971 and prior years, the rate of reversion interest was 6 per cent and the regulations permitted the Company's electric subsidiary to deposit such reversion interest in the special reversion bank account (see (c) above) and withdraw it in the same manner for investment in its plant expansion.

(e) Customers' contribution for line extensions—

Regulations call for certain plant and equipment costs to be borne by consumers with respect to line extensions or new connections. These amounts are included in property, plant and equipment and the related billings credited to customers' contributions for line extensions. Such contributions are not repayable and do not bear interest but are deducted in determining the rate base for purposes of computing the annual allowable return thereon and its value upon reversion to the conceding authority.

(f) Retirements—

Profits or losses on disposal of utility property, plant and equipment are credited or charged to accumulated depreciation.

(g) Materials and supplies—

Utility materials and supplies are valued at cost, determined under the average cost method.

(h) Interest charged to construction—

Interest is charged to construction work in progress and credited to income at the average rate for the year applied to the year-end balance of such construction, as prescribed by the regulatory authority. The average rate is computed as a weighted average of the interest rates on loan funds and the allowable rate of return (see (a) above) on internal funds employed to finance construction during the year.

### Natural Resource operations

(a) Oil and gas properties—

The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of oil and gas reserves, whether producing or non-producing, are capitalized and depleted on the composite unit of production method based upon proven reserves of oil and gas.

(b) Oil and gas equipment—

Oil and gas equipment costs are also depreciated on the unit of production basis.

(c) Deferred mine development expenditures—

All mine development expenditures incurred have been in connection with the Sukunka coal project and have been deferred as these activities are in the exploration and development stage.

(d) Coal and mineral licences—

No depletion has been provided on coal and mineral licences since activities are in the exploration and development stage.

### Other operations

(a) Investments—

The Company's policy is to carry its investments in non-subsidiary companies at cost or, where it is estimated that there has been a loss in value other than a temporary decline, at their estimated value.

(b) Industrial inventories—

Industrial inventories are carried at the lower of average cost or market.

(c) Depreciation—

Depreciation of office furniture and equipment and other physical property and amortization of leasehold improvements are provided at various rates calculated to extinguish the related book values over their estimated useful lives.

## STATEMENT OF CONSOLIDATED INCOME

for the years ended December 31

*(Expressed in thousands of United States dollars)*

| | 1972 | 1971 |
|---|---|---|
| **Electric utility:** | | |
| Operating revenues (note 1) | **$518,191** | $425,039 |
| Operating revenue deductions— | | |
| Purchased power | **202,634** | 150,476 |
| Fuel oil | **2,382** | 9,674 |
| Salaries, wages and other operating expenses | **119,169** | 101,442 |
| Depreciation | **26,777** | 25,409 |
| Reversion | **32,860** | 29,192 |
| | **383,822** | 316,193 |
| Operating income | **134,369** | 108,846 |
| Income deductions— | | |
| Interest on long-term debt | **4,327** | 3,307 |
| Reversion interest (note 1) | **15,565** | 7,577 |
| Interest charged to construction—credit | **(7,659)** | (3,314) |
| Income on short-term investments | **(5,640)** | (3,500) |
| Foreign exchange adjustments | **(2,899)** | ( 615) |
| Equity of minority shareholders | **18,923** | 14,891 |
| Income and withholding taxes (notes 1 and 2) | **24,632** | 19,974 |
| | **47,249** | 38,320 |
| Net electric utility income (note 1) | **87,120** | 70,526 |
| **Investment and industrial operations:** | | |
| North America and other— | | |
| Dividends and profits on sale of shares | **3,304** | 4,920 |
| Interest income | **2,340** | 2,290 |
| Net income of oil and gas operations | **216** | 93 |
| Net loss of trading operations | **( 179)** | |
| Foreign exchange adjustments | **( 29)** | 14 |
| | **5,652** | 7,317 |
| Brazil— | | |
| Interest under telephone sale agreement | **4,033** | 4,222 |
| Net income of investment subsidiaries (note 3) | **5,272** | 5,875 |
| Net loss of industrial operations (note 3) | **(2,252)** | (2,100) |
| Foreign exchange adjustments | **497** | 280 |
| | **7,550** | 8,277 |
| Net investment and industrial operations income | **13,202** | 15,594 |
| **General corporate expenses** | **(2,902)** | (2,339) |
| **Net income for year** | **$ 97,420** | $ 83,781 |
| **Net income per ordinary share** | **$ 3.80** | $ 3.27* |

*Adjusted for stock dividend paid July 31, 1972

(see accompanying summary of accounting policies and notes)

## CONSOLIDATED BALANCE SHEET

*(Expressed in thousands of United States dollars)*

| ASSETS | December 31 1972 | December 31 1971 |
|---|---|---|
| **Current assets (per statement attached):** | | |
| North America and other | $ 49,979 | $ 42,280 |
| Brazil | 234,057 | 174,769 |
| | 284,036 | 217,049 |
| Investments: | | |
| North America and other— | | |
| Shares of Canadian companies at cost (quoted market value 1972—$105,992; 1971—$83,445) | 57,484 | 57,484 |
| Shares of Canadian companies at cost (no quoted market value) (note 4) | 23,990 | 15,939 |
| Other investments at cost | 1,184 | 6,783 |
| | 82,658 | 80,206 |
| Brazil— | | |
| Government-guaranteed obligations (note 5) | 63,092 | 66,620 |
| Shares and debentures at cost less amounts written off | 27,912 | 17,985 |
| | 91,004 | 84,605 |
| Other assets: | | |
| North America and other— | | |
| Securities and cash on deposit with trustee under trust indenture (note 6) | 4,947 | 5,252 |
| Deferred mine development expenditures (note 7) | 4,594 | 73 |
| Sundry | 585 | 230 |
| | 10,126 | 5,555 |
| Brazil— | | |
| Utility materials and supplies at average cost | 24,495 | 27,960 |
| Interest-bearing secured loans | 19,910 | |
| Long-term finance contracts receivable | 4,822 | |
| Sundry including long-term receivables | 7,718 | 6,947 |
| | 56,945 | 34,907 |
| **Property, plant and equipment at cost less accumulated depreciation, depletion and amortization (per statement attached):** | | |
| North America and other | 7,691 | 6,816 |
| Brazil | 849,769 | 769,112 |
| | 857,460 | 775,928 |
| | $1,382,229 | $1,198,250 |

(see accompanying summary of accounting policies and notes)

## LIABILITIES

| | December 31 1972 | 1971 |
|---|---|---|
| **Current liabilities (per statement attached):** | | |
| North America and other | **$ 17,762** | $ 10,289 |
| Brazil | **159,527** | 121,613 |
| | **177,289** | 131,902 |
| **Other liabilities—Brazil:** | | |
| Long-term debt (per statement attached) | **87,035** | 46,413 |
| Accumulated reversion | **164,618** | 164,618 |
| Customers' contributions for line extensions | **37,872** | 35,588 |
| Minority interest | **92,671** | 77,285 |
| Other long-term liabilities | **7,285** | |
| | **389,481** | 323,904 |
| **Shareholders' equity:** | | |
| Capital— | | |
| Authorized: | | |
| 989 6% cumulative convertible preference shares at a par value of Can. $100.00 each (1971—1,213 shares) | | |
| 5,000,000 second preferred shares of a par value of Can. $20.00 each | | |
| 30,000,000 ordinary shares of no par value | | |
| Issued and outstanding: | | |
| 989 6% preference shares (1971—1,213) | **99** | 121 |
| 25,612,592 ordinary shares (1971—23,285,832) | **195,335** | 192,987 |
| | **195,434** | 193,108 |
| Retained earnings | **620,025** | 549,336 |
| | **815,459** | 742,444 |

On behalf of the Board:

J. H. Moore
Henry Borden } Directors

| | | |
|---|---|---|
| | **$1,382,229** | $1,198,250 |

(see accompanying summary of accounting policies and notes)

# STATEMENT OF CONSOLIDATED CURRENT ASSETS AND LIABILITIES

*(Expressed in thousands of United States dollars)*

| | December 31 | |
|---|---|---|
| | **1972** | 1971 |
| **North America and other—** | | |
| Current assets: | | |
| Cash | **$ 4,245** | $ 985 |
| Deposit receipts | **26,776** | 34,441 |
| Marketable investments at cost (quoted market value 1972—$4,286; 1971—$4,899) | **4,184** | 4,934 |
| Accounts receivable | **14,774** | 1,920 |
| | **49,979** | 42,280 |
| Current liabilities: | | |
| Accounts payable and accrued charges | **9,308** | 3,150 |
| Dividends payable | **7,896** | 7,139 |
| Income and other taxes payable | **558** | |
| | **17,762** | 10,289 |
| Net current assets (North America and other) | **32,217** | 31,991 |
| **Brazil (notes 6 and 8)—** | | |
| Current assets: | | |
| Cash | **20,050** | 17,157 |
| Treasury bills and other short-term investments | **118,036** | 88,339 |
| Government-guaranteed obligations due within one year (note 5) | **4,378** | 1,689 |
| Interest-bearing secured loans | **20,081** | 9,616 |
| Finance contracts receivable | **15,072** | 10,442 |
| Accounts receivable | **51,122** | 42,252 |
| Industrial inventories at lower of average cost or market | **5,318** | 5,274 |
| | **234,057** | 174,769 |
| Current liabilities: | | |
| Accounts payable and accrued charges | **93,046** | 66,602 |
| Income and other taxes payable | **35,874** | 26,950 |
| Long-term debt payable within one year | **11,524** | 10,823 |
| Bills of exchange payable | **6,519** | 11,263 |
| Bank indebtedness | **6,462** | 4,577 |
| Interest and dividends due and accrued | **2,889** | 1,398 |
| Short-term deposits | **3,213** | |
| | **159,527** | 121,613 |
| Net current assets (Brazil) | **74,530** | 53,156 |
| **Total net current assets** | **$106,747** | $ 85,147 |

(see accompanying summary of accounting policies and notes)

# STATEMENT OF CONSOLIDATED PROPERTY, PLANT AND EQUIPMENT

*(Expressed in thousands of United States dollars)*

| | December 31 1972 | December 31 1971 |
|---|---|---|
| **North America and other—** | | |
| Oil and gas properties | **$ 4,364** | $ 5,088 |
| Coal and mineral licences (note 7) | **2,825** | 1,192 |
| Oil and gas equipment | **401** | 1,300 |
| Office furniture and equipment | **318** | 9 |
| Leasehold improvements | **242** | |
| Total property, plant and equipment, at cost | **8,150** | 7,589 |
| Less accumulated depreciation, depletion and amortization | **459** | 773 |
| | **$ 7,691** | $ 6,816 |
| **Brazil—** | | |
| Utility plant in service | **$1,120,919** | $1,057,611 |
| Utility construction work in progress | **77,099** | 45,981 |
| Other physical property | **14,350** | 12,505 |
| Total property, plant and equipment, at cost | **1,212,368** | 1,116,097 |
| Less accumulated depreciation | **355,133** | 339,519 |
| | **857,235** | 776,578 |
| Unrealized balance of gas company assets (note 9) | **26,923** | 26,923 |
| | **884,158** | 803,501 |
| Less accumulated amortization | **34,389** | 34,389 |
| | **$ 849,769** | $ 769,112 |

(see accompanying summary of accounting policies and notes)

## STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

for the years ended December 31

*(Expressed in thousands of United States dollars)*

| | 1972 | 1971 |
|---|---|---|
| **Funds Provided** | | |
| Funds provided from operations: | | |
| Net income for year | **$ 97,420** | $ 83,781 |
| Add (Deduct): | | |
| Depreciation and depletion | **28,048** | 26,234 |
| Reversion and reversion interest (note 1) | | 36,769 |
| Interest charged to construction—credit | **(7,659)** | (3,314) |
| Equity of minority shareholders | **18,825** | 14,891 |
| | **136,634** | 158,361 |
| Long-term borrowings | **59,742** | 438 |
| Increase in holdings of minority shareholders | **5,246** | 1,329 |
| Sale of property, plant and equipment | **4,644** | 706 |
| Current portion of sale price of telephone utilities | **3,528** | 3,329 |
| Decrease (increase) in utility materials and supplies | **3,465** | ( 452) |
| Customers' contributions for line extensions | **2,284** | 1,919 |
| | **215,543** | 165,630 |
| **Funds Used** | | |
| Expenditures on property, plant and equipment | **106,812** | 87,579 |
| Loans and long-term financing contracts | **24,732** | |
| Increase in non-utility investments | **12,379** | 8,270 |
| Reduction in long-term debt | **11,835** | 10,823 |
| Subsidiary dividends paid to minority shareholders | **8,685** | 6,438 |
| Deferred mine development expenditures | **4,521** | 73 |
| Dividends—preference | **6** | 7 |
| —ordinary | **24,400** | 23,237 |
| Miscellaneous changes in various assets and liabilities | **573** | (1,540) |
| Increase in working capital | **21,600** | 30,743 |
| | **$215,543** | $165,630 |

(see accompanying summary of accounting policies and notes)

## STATEMENT OF CONSOLIDATED RETAINED EARNINGS

for the years ended December 31

*(Expressed in thousands of United States dollars)*

| | 1972 | 1971 |
|---|---|---|
| Balance at Beginning of Year | $549,336 | $488,799 |
| Net income for year | 97,420 | 83,781 |
| | 646,756 | 572,580 |
| Deduct dividends | | |
| Cash | | |
| Preference shares (Can. $6.00 per share) | 6 | 7 |
| Ordinary shares (U.S. $1.00 per share) | 24,400 | 23,237 |
| Stock | | |
| Ordinary shares (U.S. $0.10 per share) | 2,325 | |
| | 26,731 | 23,244 |
| Balance at End of Year | $620,025 | $549,336 |

## STATEMENT OF CONSOLIDATED LONG-TERM DEBT (note 6)

*(Expressed in thousands of United States dollars)*

| | December 31 | |
|---|---|---|
| | 1972 | 1971 |
| Amounts due to International Bank for Reconstruction and Development— | | |
| 4¼%, 4½%, 4⅞% and 6% loans, due semi-annually 1973 to 1978 inclusive, payable in U.S. funds | $ 8,287 | $14,327 |
| 4¼%, 4½% and 6% loans, due semi-annually 1973 to 1978 inclusive, payable in Canadian funds | 5,939 | 7,539 |
| 4½% and 6% loans, due semi-annually 1973 to 1978 inclusive, payable in sterling and French francs | 848 | 1,076 |
| | 15,074 | 22,942 |
| Brascan International B.V. | | |
| 8¼% guaranteed bonds due annually October 1, 1975 to 1987 payable in U.S. funds (guaranteed by Brascan Limited) | 20,000 | |
| Light-Serviços de Eletricidade S.A.: | | |
| United States of America Alliance for Progress 5½% loan, payable in U.S. funds in equal semi-annual instalments from January 28, 1973 to July 28, 1984 or, at the lender's option, in equivalent cruzeiros on those dates | 30,964 | 33,545 |
| Morgan Guaranty Trust Company of New York 8-3/16% to August 2, 1973, thereafter subject to periodic adjustment to 1¾% over the London interbank rate, due semi-annually June 30, 1975 to 1978, payable in U.S. funds | 30,000 | |
| Supplier financing, due semi-annually from 1973 to 1977, payable in U.S. funds | 2,521 | 749 |
| | 98,559 | 57,236 |
| Less amounts payable within one year included in current liabilities | 11,524 | 10,823 |
| | $87,035 | $46,413 |

Maturities and sinking fund requirements during the next five years are as follows:

| | | | |
|---|---|---|---|
| 1973 | $11,524 | 1976 | $12,638 |
| 1974 | 5,415 | 1977 | 12,823 |
| 1975 | 13,725 | | |

(see accompanying summary of accounting policies and notes)

*(Dollar amounts in thousands)*

### 1. Electric utility operations

(a) Operating revenues—

In May 1971, new legislation in Brazil changed the regulatory system applicable to the electric utility. In the resulting new schedule of electric rates which became effective on January 1, 1972, the rate of return on the rate base was increased from 10 per cent to 12 per cent.

In addition, effective January 1, 1972, the new legislation removed corporate profits taxes paid from the category of costs recoverable in the rates.

Billings in 1971 and 1972 were sufficient to cover "service at cost" (see summary of accounting policies) and, in addition, to recover in 1971 the remaining $300 balance of the 1969 deficiency of earnings.

(b) Corporate profits taxes—

Corporate profits taxes in Brazil are paid in the year following that in which the related taxable income is earned. The new legislation (see (a) above) reduced the rate of corporate profits taxes payable by electric utilities from 17 per cent to 6 per cent of taxable income for tax payments in the four year period commencing January 1, 1972 (i.e. with respect to taxable incomes in the four year period commencing January 1, 1971). Since the Company provides for taxes in the year in which the related taxable income is earned, corporate profits taxes included in the statement of consolidated income were provided at the 6 per cent rate in both 1971 and 1972.

(c) Reversion and reversion interest—

Effective January 1, 1972, the new legislation (see (a) above) increased the rate of reversion interest from 6 per cent to 10 per cent and terminated the prior provisions for the automatic withdrawal and reinvestment of reversion funds (see summary of accounting policies).

(d) Rate base—

All rate adjustments that have been approved to date under the "service at cost" system are provisional as they relate to the calculation by the Company's electric subsidiary of its own rate base. A Government Commission has determined the physical existence and the monetarily corrected cruzeiro cost less applicable depreciation of the plant in service as at December 31, 1964. Formal approval of the Commission's findings was completed in 1972 and the results are currently being updated. Electric income from January 1, 1965 may be subject to adjustment through future rates to reflect the final determination. However, the cruzeiro value for the utility plant, confirmed by the Commission, was approximately 2 per cent below the book value and the Company has no reason to expect that the final difference, when this value has been brought up to date, will vary materially from this result.

### 2. Withholding taxes

Interest and dividend payments from subsidiaries in Brazil are subject to regular Brazilian withholding taxes at the rate of 25 per cent and provision has been made for such taxes at that rate (see summary of accounting policies).

The law further provides that, should net dividend remittances to a company's foreign shareholders exceed 12 per cent of the dollar amount of registered capital averaged over three years, additional withholding taxes would be payable on a graduated scale from 40 per cent to 60 per cent.

### 3. Investment and industrial operations income

The major components of net income from investment and industrial operations in Brazil are as follows:

| | 1972 | 1971 |
|---|---|---|
| Net income of investment subsidiaries | | |
| Gross investment income | $ 14,288 | $ 4,658 |
| Profits on sale of shares | 1,040 | 8,482 |
| Depreciation | ( 119) | ( 50) |
| Interest expense | (3,957) | ( 38) |
| Income and withholding taxes | (1,563) | (2,216) |
| Other expenses | (4,303) | (1,374) |
| Investment write down and appropriation for agricultural research | | (3,587) |
| Equity of minority shareholders | ( 114) | |
| | $ 5,272 | $ 5,875 |
| Net loss of industrial operations | | |
| Sales | $ 9,954 | $ 8,806 |
| Cost of sales* | 7,915 | 6,179 |
| Gross profit | 2,039 | 2,627 |
| Interest expense | (1,228) | (1,464) |
| Other expenses* | (3,063) | (3,263) |
| | $ (2,252) | $(2,100) |
| *Depreciation included in above expenses | $ 296 | $ 301 |

### 4. Shares of Canadian companies

*(no quoted market value)*

The Company, through Brascan Resources Limited, has agreed to acquire a 15 per cent equity interest in Elf Oil Exploration and Production Canada Ltd. for Can. $40,000, payable over a maximum period of five years ending January, 1974 (of which Can.$24,000 had been paid to December 31, 1972). The major portion of this investment is represented by deferred exploration expenditures incurred by Elf.

### 5. Government-guaranteed obligations

This amount, together with interest at 6 per cent, is receivable in equal quarterly instalments from April 1, 1974 to January 1, 1986 with respect to the sale of the Company's telephone utilities in 1966 to an agency of the Federal Government of Brazil. Payments under the sale agreement carry the guarantee of that Government. The Company is obligated to reinvest 75 per cent of this amount in other enterprises in Brazil over the term of the agreement. The amounts receivable within one year are included under current assets.

### 6. Long-term debt

The amounts due to International Bank for Reconstruction and Development are evidenced by obligations of Light-Serviços de Eletricidade S.A. under an Obligors Agreement dated June 9, 1965; by various Loan Agreements; and by the following Collateral Trust Bonds of Brascan Limited—

| | U.S. Equivalent |
|---|---|
| Series A—payable in U.S. funds . . . . . . . . . . | $ 8,287 |
| Series B—payable in Canadian funds . . . . . . . | 5,939 |
| Series C—payable in sterling and French francs . . . | 848 |
| | $ 15,074 |

The foregoing amounts are secured by a floating charge on the assets of Light-Serviços de Eletricidade S.A. By supplemental indenture executed on May 5, 1972 the assets of Brascan Limited, were released from a similar floating charge securing the above Collateral Trust Bonds. Under the terms of the Collateral Trust Bonds approximately $5,000 is required to be maintained on deposit with the trustee.

In addition, all other long-term debt, with the exception of supplier financing, is secured by debentures of Light-Serviços de Eletricidade S.A. carrying a floating charge on the assets of that company. These assets consist principally of utility plant in service, construction work in progress, materials and supplies, and approximately $175,000 of current assets.

### 7. Sukunka coal project

The Company, through Brascan Resources Limited, has acquired a 12½% interest in certain coal licences in the Sukunka property in British Columbia at a cost of approximately $2,800. The Company has options to purchase a further 47½% interest at a price of $9,825 which, pursuant to amendments to the option agreements made in January 1973, are exercisable by the earlier of June 30, 1975 or three months after leases or permits have been issued and satisfactory arrangements have been agreed upon for the provision of port, loading and rail facilities. Under these options the property was to be developed as a joint venture owned 60% by the Company, through its subsidiaries, and 40% by Brameda Resources Limited.

Mine development expenditures of $4,594, the major portion of which would be assumed by the joint venture upon exercise of the options, have been deferred.

In early 1973 the Government of British Columbia entered into negotiations with Brameda Resources under which the Government would acquire the 40% interest of Brameda contingent upon Brascan Resources exercising its options. These negotiations have not as yet been completed.

### 8. Exchange regulations

Remittances from Brazil are subject to the exchange regulations of that country. Inter-company interest and related sinking fund payments from the electric subsidiary together with payments under the telephone sale agreement are fully remittable in dollars. Dividend payments from the electric subsidiary, under current interpretation of the regulations, are 47.7 per cent remittable in dollars (with the balance being available in cruzeiros in Brazil). Dividend payments from the various Brazilian investment subsidiaries are either wholly or partially remittable in dollars.

### 9. Unrealized balance of gas company assets

This represents the book value of the unrealized balance of the assets of the São Paulo gas service expropriated in 1967 and the net book value of the gas plant in Rio de Janeiro which was transferred to the State of Guanabara in 1969.

The compensation receivable for these assets has not yet been determined, but no material loss on final settlement is anticipated.

### 10. Exploration expenditures available for income tax purposes

Brascan Resources Limited has drilling and exploration expenditures in Canada amounting to approximately $25,000 (arising both from its own operations and from those of other parties who, by agreement, have renounced in its favour the tax deductibility of similar expenditures made by them) which are available for application against such taxable income as may arise from its operations in the future.

### 11. Remuneration of directors and officers

During 1972 the aggregate remuneration of the Company's directors as directors and the Company's officers as officers was as follows:

| | Directors | | Officers | | Number of officers who were also directors |
|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | |
| Paid by the Company . . | 23 | $132 | 13 | $667 | 5 |
| Paid by one subsidiary . . | | | 1 | 98 | 1 |
| Paid by another subsidiary . . | | | 1 | 13 | |

## AUDITORS' REPORT

To the Shareholders of Brascan Limited

We have examined the consolidated balance sheet and the statements of consolidated current assets and liabilities, property, plant and equipment and long-term debt of Brascan Limited and subsidiary companies as at December 31, 1972, and the statements of consolidated income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in basis of consolidation described in the summary of accounting policies, with which change we concur.

Toronto, Canada
March 19, 1973

CLARKSON, GORDON & CO.
Chartered Accountants

## ANALYSIS OF CONSOLIDATED INCOME BY CURRENCIES

for the years ended December 31

*(Expressed in thousands of United States dollars)*

| | 1972 | 1971 |
|---|---|---|
| **Dollar Components** | | |
| Net electric utility income | **$21,411** | $18,176 |
| Investment and industrial operations: | | |
| North America and other— | | |
| Dividends and profits on sale of shares | **3,304** | 4,920 |
| Interest income | **2,340** | 2,290 |
| Net income of oil and gas operations | **216** | 93 |
| Net loss of trading operations | **( 136)** | |
| Foreign exchange adjustments | **( 34)** | 14 |
| | **5,690** | 7,317 |
| Brazil— | | |
| Interest under telephone sale agreement | **4,033** | 4,222 |
| Net income of investment subsidiaries | **1,451** | 515 |
| Net loss of industrial operations | | ( 228) |
| Foreign exchange adjustments | **5** | 39 |
| | **5,489** | 4,548 |
| Net investment and industrial operations income | **11,179** | 11,865 |
| General corporate expenses | **(2,887)** | (2,338) |
| Net income for year | **29,703** | 27,703 |
| **Cruzeiro Components** | | |
| Net electric utility income | **65,709** | 52,350 |
| Investment and industrial operations: | | |
| North America and other— | | |
| Net loss of trading operations | **( 43)** | |
| Foreign exchange adjustments | **5** | |
| | **( 38)** | |
| Brazil— | | |
| Net income of investment subsidiaries | **3,821** | 5,360 |
| Net loss of industrial operations | **(2,252)** | (1,872) |
| Foreign exchange adjustments | **492** | 241 |
| | **2,061** | 3,729 |
| Net investment and industrial operations income | **2,023** | 3,729 |
| General corporate expenses | **( 15)** | ( 1) |
| Net income for year | **67,717** | 56,078 |
| **Net income per statement of consolidated income** | **$97,420** | $83,781 |
| **Net income per ordinary share** | | |
| Dollar components | **$ 1.16** | $ 1.08* |
| Cruzeiro components | **2.64** | 2.19 |
| | **$ 3.80** | $ 3.27* |

*Adjusted for stock dividend paid July 31, 1972

## SOURCE AND APPLICATION OF FUNDS BY CURRENCIES

for the years ended December 31

*(Expressed in thousands of United States dollars)*

| | 1972 | 1971 |
|---|---|---|
| **Dollar Components** | | |
| **Funds provided** | | |
| From operations | | |
| Net income for year | $ 29,703 | $ 27,703 |
| Add depreciation and depletion | 328 | 222 |
| | 30,031 | 27,925 |
| Sale of property, plant and equipment | 3,840 | 27 |
| Current portion of sale price of telephone utilities, less amount reinvested in Brazil | 528 | ( 221) |
| Repayment of electric subsidiary debt to parent | 5,000 | 5,000 |
| Decrease in working capital | | 1,423 |
| | 39,399 | 34,154 |
| **Funds used** | | |
| Expenditures on property, plant and equipment | 5,244 | 1,633 |
| Increase in non-utility investments | 2,452 | 9,172 |
| Deferred mine development expenditures | 4,521 | 73 |
| Dividends—preference | 6 | 7 |
| —ordinary | 24,400 | 23,237 |
| Miscellaneous changes in various assets and liabilities | 2,550 | 32 |
| Increase in working capital | 226 | |
| | 39,399 | 34,154 |
| **Cruzerio Components** | | |
| **Funds provided** | | |
| From operations | | |
| Net income for year | 67,717 | 56,078 |
| Add (Deduct): | | |
| Depreciation | 27,720 | 26,012 |
| Reversion and reversion interest | | 36,769 |
| Interest charged to construction—credit | (7,659) | (3,314) |
| Equity of minority shareholders | 18,825 | 14,891 |
| | 106,603 | 130,436 |
| Long-term borrowings | 59,742 | 438 |
| Increase in holdings of minority shareholders | 5,246 | 1,329 |
| Sale of property, plant and equipment | 804 | 679 |
| Telephone sale proceeds transferred to Brazil for reinvestment | 3,000 | 3,550 |
| Decrease (increase) in utility materials and supplies | 3,465 | ( 452) |
| Customers' contributions for line extensions | 2,284 | 1,919 |
| Miscellaneous changes in various assets and liabilities | 1,977 | 1,572 |
| | 183,121 | 139,471 |
| **Funds used** | | |
| Expenditures on property, plant and equipment | 101,568 | 85,946 |
| Loans and long-term financing contracts | 24,732 | |
| Increase in non-utility investments | 9,927 | ( 902) |
| Reduction in long-term debt | 16,835 | 15,823 |
| Subsidiary dividends paid to minority shareholders | 8,685 | 6,438 |
| Increase in working capital | 21,374 | 32,166 |
| | $183,121 | $139,471 |

## COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

for the years ended December 31

*(Expressed in thousands of United States dollars)*

| | 1972 |
|---|---|
| **Electric Utility Income** | |
| Operating revenues | $ 518,191 |
| Operating revenue deductions: | |
| Purchased power | 202,634 |
| Fuel oil | 2,382 |
| Salaries, wages and other operating expenses | 119,169 |
| Depreciation | 26,777 |
| Reversion | 32,860 |
| | 383,822 |
| Operating income | 134,369 |
| Income deductions | 47,249 |
| Net electric utility income | 87,120 |
| **Investment and Industrial Operations** | |
| North America and other | 5,652 |
| Brazil | 7,550 |
| | 13,202 |
| **General Corporate Expenses** | 2,902 |
| **Net Income Before Extraordinary Items** | 97,420 |
| Extraordinary items—credit (debit) | |
| **Net Income for Year** | $ 97,420 |

(In accordance with current accounting practice the $18,815 loss on sale of the telephone utilities charged to retained earnings in 1965 would be classified as an extraordinary item.)

## OPERATING STATISTICS OF LIGHT—SERVIÇOS DE ELETRICIDADE S.A.

| | 1972 |
|---|---|
| Kilowatt hours sold (millions) | |
| Residential | 4,966 |
| Commercial | 3,662 |
| Industrial | 11,126 |
| Public utilities and others | 2,648 |
| Total | 22,402 |
| Customers (thousands) | 3,485 |
| Employees | 25,968 |
| Capacity of generating plants (kw thousands) | 2,119 |
| Transmission lines (miles of circuit) | 2,962 |
| Distribution network lines (miles of wire) | 163,388 |
| Transformer capacity (kva thousands) | 4,961 |

| 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 |
|---|---|---|---|---|---|---|
| $ 425,039 | $ 369,276 | $ 302,802 | $ 257,612 | $ 249,531 | $ 218,942 | $ 165,075 |
| 150,476 | 129,012 | 91,341 | 61,516 | 53,768 | 47,249 | 33,295 |
| 9,674 | 2,889 | 16,812 | 14,254 | 9,800 | 11,453 | 10,449 |
| 101,442 | 85,807 | 73,477 | 65,734 | 66,618 | 52,354 | 40,206 |
| 25,409 | 23,747 | 22,212 | 20,564 | 19,271 | 31,202 | 25,944 |
| 29,192 | 27,220 | 19,635 | 17,853 | 18,128 | 15,978 | 13,896 |
| 316,193 | 268,675 | 223,477 | 179,921 | 167,585 | 158,236 | 123,790 |
| 108,846 | 100,601 | 79,325 | 77,691 | 81,946 | 60,706 | 41,285 |
| 38,320 | 42,543 | 31,237 | 32,541 | 37,721 | 28,418 | 21,871 |
| 70,526 | 58,058 | 48,088 | 45,150 | 44,225 | 32,288 | 19,414 |
| 7,317 | 6,461 | 7,043 | 5,945 | 4,260 | 3,333 | 1,828 |
| 8,277 | 3,936 | 6,733 | 5,739 | 4,578 | 5,270 | (64) |
| 15,594 | 10,397 | 13,776 | 11,684 | 8,838 | 8,603 | 1,764 |
| 2,339 | 1,949 | 1,804 | 1,281 | 1,492 | 1,627 | 1,698 |
| 83,781 | 66,506 | 60,060 | 55,553 | 51,571 | 39,264 | 19,480 |
| | | | 3,632 | | (2,885) | |
| $ 83,781 | $ 66,506 | $ 60,060 | $ 59,185 | $ 51,571 | $ 36,379 | $ 19,480 |

| 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 |
|---|---|---|---|---|---|---|
| 4,651 | 4,162 | 3,882 | 3,504 | 3,145 | 2,862 | 2,642 |
| 3,278 | 3,037 | 2,827 | 2,554 | 2,266 | 2,149 | 2,032 |
| 9,972 | 8,585 | 8,090 | 7,209 | 6,262 | 6,131 | 5,313 |
| 2,409 | 2,135 | 2,081 | 2,062 | 1,972 | 1,655 | 1,654 |
| 20,310 | 17,919 | 16,880 | 15,329 | 13,645 | 12,797 | 11,641 |
| 3,273 | 3,056 | 2,847 | 2,662 | 2,535 | 2,403 | 2,285 |
| 25,866 | 25,216 | 24,549 | 23,449 | 22,949 | 21,562 | 19,319 |
| 2,119 | 2,119 | 2,121 | 2,121 | 2,148 | 2,147 | 2,147 |
| 2,932 | 2,818 | 2,779 | 2,668 | 2,650 | 2,534 | 2,504 |
| 149,300 | 137,613 | 123,334 | 112,515 | 104,062 | 97,036 | 91,873 |
| 4,421 | 4,119 | 3,564 | 3,190 | 2,846 | 2,504 | 2,285 |

# CORPORATE STRUCTURE

## Brascan LIMITED

An investment management company
(incorporated in Canada)

### ELECTRIC UTILITY INVESTMENT
ASSETS $1,051 MILLION†

**LIGHT (83%)**
(Light—Serviços de Eletricidade S.A.)
Generation, purchase, transmission and distribution of electric power in concession areas which include São Paulo and Rio de Janeiro

### CONSUMER GOODS AND SERVICES
ASSETS $90 MILLION†

**JOHN LABATT LIMITED (32%)**
A Canadian management holding company engaged, through its group of companies, in the manufacture, distribution and sale of beverages and a wide range of industrial products, consumer food products and food services

**HUDSON'S BAY COMPANY (7%)**
Retail and wholesale company with interests in oil and gas exploration

**FÁBRICAS PEIXE (92%)***
(Indústrias Alimentícias Carlos de Britto S.A.)
Food processing

**SWIFT-ARMOUR S.A. (45%)***
Meat packing, cattle raising

**OUROBRANCO (100%)***
(Ourobranco Cervejas e Refrigerantes Limitada)
Brewery. (To be merged with the Skol-Caracu brewery group)

**EUCATEX (12%)***
(Eucatex S.A.—Indústria e Commércio)
Manufacturer of acoustic tiles, hardboard, etc.

**Other assets and investments**

### NATURAL RESOURCES
ASSETS $49 MILLION†

**BRASCAN RESOURCES LIMITED (100%)**
Natural resource exploration and development

**ELF OIL EXPLORATION & PRODUCTION CANADA LIMITED (15%)**
Oil exploration and development

**COALITION MINING LIMITED (77%)**
Coal development

**MAGNORTH PETROLEUMS LIMITED (12%)**
Oil and gas exploration and production

**PROMISA (100%)***
(Promisa—Mineração e Prospecçoes S.A.)
Non-ferrous metals exploration and development

### TOURISM AND REAL ESTATE DEVELOPMENT
ASSETS $6 MILLION†

**GÁVEA HOTEL (67%)***
(Gávea Hotelaria e Turismo S.A.)
Hotel

**PARATI (28%)***
(Empreendimentos, Desenvolvimento e Melhoramentos S.C. Ltda.)
Tourism development

### FINANCIAL SERVICES AND TRADING
ASSETS $89 MILLION†

**BANCO BRASCAN (100%)***
(Banco Brascan de Investimento S.A.)
Investment bank

**CREFINAN S.A. (51%)**
(Crédito, Financiamento e Investimentos)
Consumer credit

**BRASCAN INTERNATIONAL TRADING GROUP (100%)**
International trading companies with offices in Toronto, Rio de Janeiro, London, Tokyo, Osaka, New York.

**Other assets and investments**

### OTHER CORPORATE ASSETS
ASSETS $97 MILLION†

**GOVERNMENT-GUARANTEED OBLIGATIONS**
Balance owing to Brascan from the sale of its telephone utilities to the Government of Brazil in 1966

**Other assets and investments**

†Asset values represent book values at December 31, 1972 without deduction of liabilities which are set out on page 9.

*Held through the following wholly-owned Brazilian investment subsidiaries:
Emprêsa Técnica de Organização e Participações S.A.
Organização e Empreendimentos Gerais S.A.
Brasnac—Participações e Investimentos Ltda.

—In Canada

## John Labatt Limited

Net earnings of John Labatt Limited for the nine months ending January 31, 1973 amounted to Can. $14.4 million or Can. $1.35 per common share (before an extraordinary item of Can. 11 cents per share representing non-recurring expense to date incurred on the relocation and start-up of Laura Secord's new production facilities) compared with Can. $12.7 million or Can. $1.16 per share (before an extraordinary item of Can. 37 cents per share, representing loss on sale of its interest in Lucky Breweries Inc.) for the same period of the previous year. The Labatt group's beer sales continued to increase above the industry rate; Labatt sales volume in Canada for the period increased 9.4% compared with an industry increase of 6%.

Labatt's winery interests have been expanded. During the period under review, the group acquired control of Chateau-Gai Wines Limited of Toronto, and obtained options to acquire all the shares of Casabello Wines Limited of Penticton, B.C.

Labatt continues to develop its international interests. It is already a minority shareholder in a brewery in Trinidad and, as indicated elsewhere in this report, in February, Labatt, in partnership with the Brascan Investment Group, reached agreement to purchase 50% of the controlling interest in the third-largest brewing group in Brazil, Skol-Caracu.

During the same month Labatt purchased a minority interest in a Zambian brewing company.

The food and allied products operations of the company showed an overall improvement during the nine-month period as compared with the previous year.

## Hudson's Bay Company

Net income of Hudson's Bay for the year ended January 31, 1973 was Can. $15.6 million (Can. $1.16 per share) compared to Can. $13.3 million (Can. 98 cents per share) the previous year. A semi-annual dividend of Can. 28 cents has been declared compared with Can. 26 cents paid semi-annually the previous year. The "Bay", a major wholesaler and retailer, continued its expansion of facilities in Eastern Canada. Through Hudson's Bay Company Resources Ltd., it owns oil and gas rights in Western Canada and has a 21.9% interest in Hudson's Bay Oil and Gas Company Limited, Canada's largest non-integrated oil and gas exploration company.

In March, 1973 Hudson's Bay Company reached conditional agreement to acquire a 32% interest in Siebens Oil and Gas Ltd. of Calgary in exchange for all the shares of Hudson's Bay Co. Resources Ltd. The combining of Siebens' land position in Canada and the North Sea with the Hudson's Bay Co. Resources' cash flow should provide significant additional funds for exploration purposes.

*Labatt's fine beers and ales continue to grow in popularity across Canada.*

## Consumer Goods


*Swift-Armour S.A., Brazil's largest meat-packing company, serves a growing domestic and export market.*

### —In Brazil

#### Swift-Armour S.A.

In December the Investment Group, in association with the CAEMI group of Brazilian companies acquired from Deltec International Limited its 92% interest in Swift-Armour S.A., Brazil's largest meat-packing operation. The Brazilian partner, which is involved principally in the natural resource field, will hold the majority interest in the joint venture.

Swift-Armour operates three slaughter-houses, canning facilities and several cattle ranches. Besides being a leading supplier to the domestic market, the company is Brazil's largest meat exporter.

#### Skol-Caracu

In November 1972 the Investment Group and John Labatt Limited acquired the Ourobranco brewery in Belo Horizonte. Following this acquisition, agreement was reached with a prominent Portuguese group to participate in the Skol-Caracu brewing group. The Brascan-Labatt and the Portuguese groups will each hold 50% of the control stock.

Skol-Caracu operates four breweries—in Rio de Janeiro, Rio Claro, Santos, and Londrina—which, together with the Belo Horizonte plant, have a total annual capacity of 33 million imperial gallons. There are plans for another plant at Brasília. All the breweries except Santos have soft drink plants and there is a mineral water bottling plant at Lindoia and another soft drink plant at Governador Valadares.

#### Fábricas Peixe

Peixe again reported unsatisfactory results in 1972. An obsolete plant was closed and manufacturing facilities were streamlined in the two remaining factories. The search for new and better tomato varieties to improve the quality of products continues, with encouraging results. Executive responsibilities are being realigned, and while recovery in market penetration and elimination of losses is slower than anticipated, results so far in 1973 indicate some improvement.

#### Eucatex S.A.

A hard and soft-board manufacturer in São Paulo in which the Investment Group holds a minority interest, Eucatex had record sales, increased exports and a profitable year.

#### Other Investments

The Investment Group holds minority interests in several other enterprises, which are being held for short-term investment.

## NATURAL RESOURCES

#### Brascan Resources Limited

Brascan Resources (formerly Mikas Oil Co. Ltd.) through which the Company conducts its Canadian natural resource program, is carrying on an active exploration and drilling program. During 1972, 62 wells were drilled in Alberta in the first stage of a shallow gas exploration program; 19 wells were completed, and additional wells are being drilled. Final results have not yet been determined, but natural gas reserves have been located. Brascan Resources also has a working interest in an oil exploration program in Labrador.

Certain oil properties that did not meet the company's economic value criteria were sold during late 1972.

In Northern Saskatchewan the company has a concession to explore 450,000 acres for thermal coal, and it is evaluating kaolin and silica deposits in both Saskatchewan and Ontario.

#### Elf Exploration and Production Canada Ltd.

The Company over a period of five years is purchasing, through Brascan Resources Limited, a 15% interest in Elf Oil Exploration and Production Canada Ltd. for the sum of Can. $40 million. Of the remaining two instalments of Can. $8 million each due to Elf, one has been paid in January 1973 and the final one is payable in 1974. Elf holds rights on 23 million net acres in 57 million gross acres, largely located in the Arctic, in the Beaufort Sea-Mackenzie Delta area. Elf also has an expanding acreage interest in the Western Canadian sedimentary basins. Drilling by Elf during 1972 did not indicate any shows of economic significance on the Arctic Island acreage.

Elf recently completed a farmout and joint partnership with a group of U.S. gas companies and Panarctic. This group will spend Can. $40 million from 1973 to 1979 to earn an interest in 11.8 million net acres. A total 32.5% interest will be earned in this acreage if the program is carried to completion. To do this an additional Can. $20 million will be spent on delineation work, and a further Can. $75 million in development funds is to be financed by the gas companies. The group of gas companies will have priority to purchase gas produced, but on a competitive basis.

*A Brascan Resources' drilling rig in northern Canada, symbolic of the company's broad natural resource exploration and development program.*

### Magnorth Petroleums Ltd.

Brascan Resources has a 12% interest in Magnorth Petroleums Ltd., which controls approximately 14 million gross acres in the Arctic and Beaufort Sea regions.

Magnorth completed a farmout of a 25% interest in its acreage for the expenditure of Can. $10 million by Norlands Petroleums Limited, a subsidiary of a large gas purchaser, Northern Natural Gas. This company also has an additional option which will allow it to earn a further 25% interest by the expenditure of a further sum of approximately Can. $25 million.

### Coalition Mining Limited

Brascan Resources' option to purchase an additional 47½% interest, giving it a 60% interest, in the Sukunka coal deposits in Northern British Columbia, from Brameda Resources Limited, has been extended from January 1, 1973 to the earlier of June 30, 1975 or three months after leases or permits have been issued and satisfactory arrangements have been concluded for the provision of port, loading and rail facilities.

Development mining expenditures to December 31, 1972 total $4.6 million and have been deferred. The major portion of these expenses would, upon exercise of the option, be assumed by the joint venture owned 60% by the company and 40% by Brameda Resources.

Development mining, market research programs and certain other aspects of the feasibility study of the project are being continued, though at a reduced rate.

In early 1973 the Government of British Columbia entered into negotiations with Brameda Resources under which the Government would acquire the 40% interest of Brameda, contingent upon Brascan Resources exercising its options. These negotiations have not as yet been completed.

### Promisa

An exploration program is being carried on in Brazil by a subsidiary company, Promisa. Three projects are being evaluated currently and exploratory searches are continuing for non-ferrous metals.

## TOURISM AND REAL ESTATE DEVELOPMENT

### Gávea Hotelaria e Turismo

Construction of the 500-room $15 million Hotel Inter-Continental Rio on Gávea Beach in Rio de Janeiro, in cooperation with Inter-Continental Hotels Limited, a subsidiary of Pan American Airlines, is proceeding, with the opening scheduled for 1974. The Investment Group holds two-thirds of the equity.

### Parati

The Investment Group, associated with other Brazilian investors and ADELA, is carrying out feasibility studies for the development of a large domestic tourism project on 11 miles of ocean-front property, 130 miles south of Rio de Janeiro. The site lies close to the new Rio-Santos highway due for completion in December 1973. The project will provide for the creation of integrated facilities, airport, roads, power, entertainment, and shopping complex, as well as hotels and other types of accommodation.

*An architect's conception of Hotel Inter-Continental Rio, under construction by Brascan in cooperation with Inter-Continental Hotels Ltd., on Gávea Beach in Rio de Janeiro.*

## BRASCAN NORDESTE

A non-profit research and development agency organized in December 1971 with a $1.8 million donation from the Investment Group, Brascan Nordeste is designed to promote and develop research projects in Brazil's underdeveloped North-East. Projects will be designed to increase agricultural, cattle breeding and industrial productivity in the area, so that the region's natural resources may be better utilized and social, economic and working conditions improved.

During 1972 Brascan Nordeste conducted a broad survey of the economy of the North-East, which is 70% dependent on agriculture, and of current agricultural research projects at universities and scientific institutions, before preparing its own program of work. A committee of well-known Brazilian business and Government leaders, with extensive knowledge and experience in the North-East, established a priority list of research projects. The list includes studies of cattle breeding, agriculture, reforestation, shrimp raising, and the growing of tomatoes, cashews and fruit.

Brascan Nordeste's first project, begun in 1972, is a major research and developmental study to find improved methods of growing and using manioc, a starchy root plant which is a basic component of the diet of most North-Eastern Brazilians. Manioc is the second most important crop in the North-East, and an important source of employment for rural workers.

Nearly 20 agronomists and economists at the School of Agronomics of the Federal University of Bahia form part of the research team engaged not only in developing techniques to increase manioc quality and productivity, but also in investigating the industrial utilization of the plant.

*Manioc seedlings adaptable to growing conditions in North-East Brazil are being developed at an experimental farm at Cruz das Almas in Bahia. Brascan Nordeste is sponsoring the project.*

# FINANCIAL SERVICES AND TRADING

*A Banco Brascan client (left) discusses financing plans with Credit Officer Julio Monteiro de Barros and Marketing Officer Cesar Henrique Arthou (standing) at the Bank's new offices in downtown Rio de Janeiro.*

## Banco Brascan de Investimento S.A.

Banco Brascan (an investment bank) is developing a full range of investment banking services. It has significantly enlarged its volume of operations, particularly in the areas of lending and the money market, providing financing for both private and official organizations. At December 31, 1972 the outstanding value of loans granted amounted to the equivalent of $40 million, representing a threefold increase over the level of the previous year. The Bank has offices in Rio de Janeiro, São Paulo, Brasilia and Recife.

In 1972 the greater part of the Bank's profits was derived from operations rather than, as in 1971, from security trading.

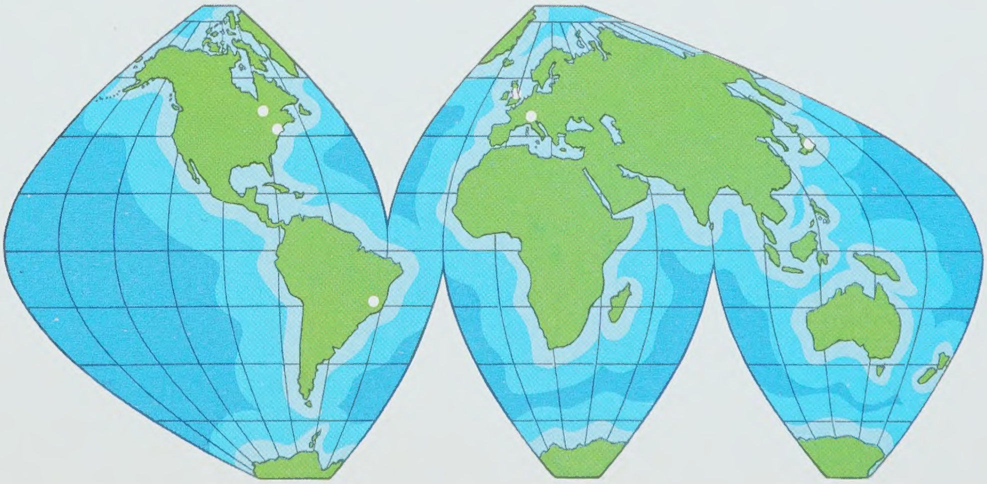
Crefinan, the Bank's consumer credit subsidiary, experienced satisfactory growth.

## Brascan Trading and Financial Services Group

The establishment of the international trading group commenced in 1972, with offices in Toronto, Rio de Janeiro, London, New York, Tokyo and Osaka. The operations of the group are still in a formative stage.

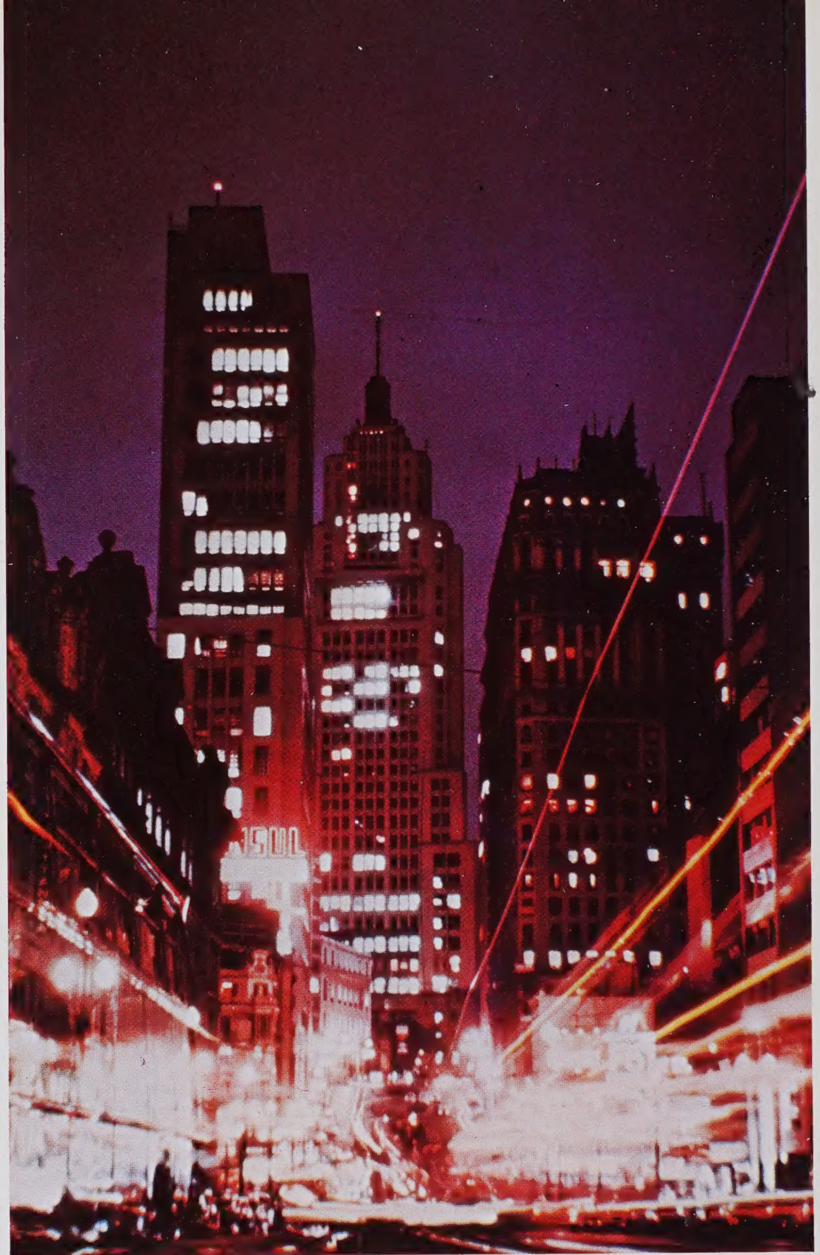
It is planned to open a financial services and trading office in Geneva in 1973.

*Offices of the Brascan international trading group are being established in Toronto, Rio de Janeiro, London, New York, Tokyo and Osaka. A financial services and trading office is being opened in Geneva.*



## THE LIGHT—IN EVERY PART OF COMMUNITY LIFE

The Light is an integral part of all aspects of life in its 12,200-square mile concession area in South-Central Brazil. Medical care, sporting events, industrial production, activities at home and throughout the city—the company transmits and distributes the electric power needed in each facet of daily living for nearly three and a half million customers.

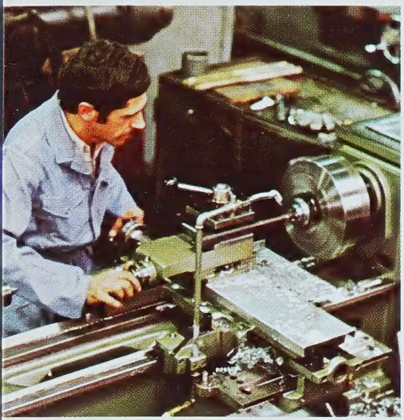


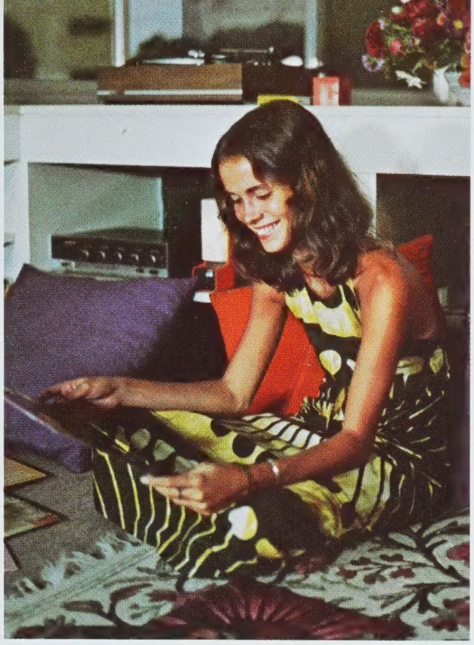
*Night in downtown São Paulo, South America's largest city.*

*Brazil's national sport, soccer at Maracanã stadium.*

*A Brazilian family at home.*

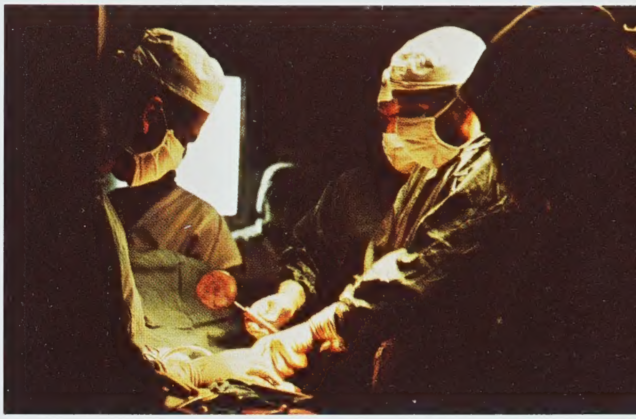
*A worker in an industrial plant. Economic activities in the region of razil served by Light account for nearly 63% of the country's Gross Domestic Product.*





*Music, always a part of Brazilian life, whether live or recorded.*

*Operating room in a Brazilian hospital.*



*A motor show at Anhembi Park, one of the world's largest trade exhibition complexes. Brazil's rapid industrial development is attracting both domestic and export buyers.*

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